



THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY  
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT  
POLICY

Required Report - public distribution

**Date:**  
**GAIN Report Number:**

## **Philippines**

## **Coffee Annual**

## **Annual**

**Approved By:**  
Emiko Purdy

**Prepared By:**  
Pia A. Ang

### **Report Highlights:**

Philippine coffee production in Market Year (MY) 2010 is expected to decline as a result of the hot and dry weather conditions experienced due to the El Nino phenomenon. MY 2010 imports of coffee beans and soluble coffee are expected to remain high due to the projected lower domestic production in MY 2009.

**Commodities:**

Coffee, Green

**Production:**

According to the Philippine Department of Agriculture's Bureau of Agricultural Statistics (BAS), total coffee production declined slightly from 97,430 MT (dried berry basis) reported in 2008 to 96,433 MT last year. According to BAS, the downtrend in coffee production of 1.02 percent was a result of prevailing peace and order situation in Sulu and excessive rains during the flowering stage hampered harvesting in coffee farms. In addition, production was affected by the low-buying price of coffee in Caraga provinces as well as the continuous neglect of coffee farms in Cavite and Davao del Norte. In 2009, the total area planted to all varieties of coffee dropped by 0.88 percent from 123 to 122 thousand hectares. Coffee production in MY 2010 (which starts in July 2009) is projected to decline by 2-3 percent as a result of the hot and dry weather conditions experienced due to the El Nino phenomenon.

| <b>Coffee: Philippine Production (dried berry basis)<br/>January-December, 2007-2009</b> |             |             |             |
|------------------------------------------------------------------------------------------|-------------|-------------|-------------|
| <b>Region</b>                                                                            | <b>2007</b> | <b>2008</b> | <b>2009</b> |
| Value<br>Million Pesos                                                                   | P5,496      | P6,205      | P5,529      |
| Volume<br>Metric Tons                                                                    | 97,890      | 97,430      | 96,433      |
| Ave. Farmgate<br>Pesos/kg                                                                | P55.48      | P63.69      | P57.33      |

Source: Bureau of Agricultural Statistics

The Philippines lies in a narrow area in the world called the coffee belt making it one of the few countries that can grow four varieties of coffee: Arabica, Excelsa, Liberica and Robusta. The total number of bearing trees dropped by 0.37 percent. The number of mature trees of Arabica went up by 0.16 percent. Robusta remained the major variety with almost 72 percent share in the 2009 production.

| <b>Coffee: Number of Mature Trees, Philippines<br/>January-December 2008-2009</b> |             |             |
|-----------------------------------------------------------------------------------|-------------|-------------|
|                                                                                   | <b>2008</b> | <b>2009</b> |
| Coffee                                                                            | 85,758,176  | 85,442,739  |
| Arabica                                                                           | 13,957,631  | 13,979,288  |
| Excelsa                                                                           | 6,239,477   | 5,960,179   |
| Liberica                                                                          | 980,529     | 954,398     |
| Robusta                                                                           | 64,351,373  | 64,321,585  |

|        |         |         |
|--------|---------|---------|
| Others | 229,166 | 227,289 |
|--------|---------|---------|

Source: Bureau of Agricultural Statistics

In 2009, the average composite farmgate price of coffee (all varieties) was P57.33, down 10.17 percent from the previous year. In 2009, Robusta coffee prices increased by as much as 19 percent, while Arabica farmgate prices dropped 5 percent, from 2008 prices.

| <b>FARMGATE PRICES OF ROBUSTA, 2008-09<br/>DRY BEANS (Pesos/kg) [1]</b> |              |              |
|-------------------------------------------------------------------------|--------------|--------------|
|                                                                         | <b>2008</b>  | <b>2009</b>  |
| January                                                                 | 62.28        | 67.67        |
| February                                                                | 68.94        | 66.28        |
| March                                                                   | 76.07        | 63.71        |
| April                                                                   | 69.54        | 61.16        |
| May                                                                     | 70.40        | 60.88        |
| June                                                                    | 71.86        | 60.51        |
| July                                                                    | 65.20        | 53.13        |
| August                                                                  | 67.20        | 51.58        |
| September                                                               | 66.62        | 53.29        |
| October                                                                 | 64.32        | 49.09        |
| November                                                                | 66.11        | 48.3         |
| December                                                                | 67.03        | 50.39        |
| <b>Average</b>                                                          | <b>67.96</b> | <b>57.16</b> |

Source: Bureau of Agricultural Statistics

| <b>FARMGATE PRICES OF ARABICA, 2008-09<br/>DRY BEANS (Pesos/kg)</b> |              |              |
|---------------------------------------------------------------------|--------------|--------------|
|                                                                     | <b>2008</b>  | <b>2009</b>  |
| January                                                             | 67.56        | 77.76        |
| February                                                            | 68.37        | 77.50        |
| March                                                               | 70.1         | 78.40        |
| April                                                               | 79.8         | 50.52        |
| May                                                                 | 47.4         | 52.48        |
| June                                                                | 48.67        | 52.88        |
| July                                                                | 50.88        | 51.88        |
| August                                                              | 51.2         | 52.17        |
| September                                                           | 52.23        | 53.15        |
| October                                                             | 52.35        | 50.35        |
| November                                                            | 45.97        | 62.85        |
| December                                                            | 46.8         | 62.70        |
| <b>Average</b>                                                      | <b>56.78</b> | <b>60.22</b> |

Source: Bureau of Agricultural Statistics

<sup>[1]</sup> As of May 14, 2010, US\$1=P44.82

**Consumption:**

The Philippines avoided most of the effects of the world recession in 2009. Despite two major typhoons in the second half of 2009, Gross Domestic Product (GDP) expanded 0.9 percent last year, within the Philippine government's (GRP) 0.8-1.8 percent growth target. For 2010, GRP economic planners predict a growth range of between 2.6 percent and 3.6 percent, consistent with expectations from the World Bank and Asian Development Bank that Philippine GDP would more than double last year's growth rate. The GRP has announced its intention to continue to inject into the economy stimulus funds, albeit in lesser amounts, possibly until 2012 to ensure the country's full economic recovery. The Philippine Central Bank is also expected to maintain low interest rates through most of 2010 to stimulate the economy

Remittances from Overseas Filipino Workers (OFWs) continued to be the bright spot of the Philippine economy last year with remittances expected to reach a record \$17.1 billion in 2009, up 4 percent from \$16.4 billion in 2008. OFW remittances are expected to grow even stronger (6 percent) in 2010, according to press reports. Remittances from abroad enhance higher consumption, help keep inflation in check and have a stabilizing effect on foreign exchange. Another recent and emerging economic driver that drives consumption up is the local business process outsourcing (BPO) industry that reportedly grew over 20 percent in 2009, and is expected to generate between \$11-13 billion in revenue in 2010 as more companies improve efficiency and cut down costs. The main stimulus for increased consumption this year, however, will be spending for the May 2010 elections. Some economists expect GDP to rise by an estimated half point by increasing consumption and providing jobs as a result of election-spending.

Coffee is generally considered to be a household staple even among the lower economic classes. At present, soluble or instant coffee accounts for about 90 percent of all the coffee consumed in the Philippines. Domestic coffee consumption is estimated to increase slightly due to a predicted increase in overall food and beverage consumption as the economy rebounds.

#### **Trade:**

Trade data from the National Statistics Office show that imports of coffee beans increased from 15,700 MT 2008 to 30,700 MT in 2009. Imports are sourced largely from neighboring Asian countries such as Vietnam (54 percent); Indonesia (44 percent) and others. It is likely that not all coffee imports are always accurately captured by the official government data due to the reported robust informal trade between Indonesia and the southern island of Mindanao, where majority of the coffee plantations are located and coffee manufacturers are operating. Imports of soluble coffee and coffee concentrates increased from 13,960 MT in 2008 to 19,293 MT last year. Without significant increases in coffee production and with continued growth in domestic coffee consumption, coffee bean imports will likely remain high at estimated nearly 40 to 50 percent of total annual domestic requirement.

Exports of instant soluble coffee increased from 272 MT in 2008 to 408 MT last year. Majority of the soluble coffee exported went to South Korea and Thailand. On the other hand, exports of roasted and green coffee beans dropped from 2,870 kilograms in 2008 to zero.

#### **Policy:**

Executive Order No. 850 was signed in December 2009, lowering the Common Effective Preferential Tariff Rates for ASEAN (Association of Southeast Asian Nation) member countries to between 0-5 percent. The 2010 MFN and tariff rates for coffee have not changed from the previous year.

| <b>Tariff Code</b> | <b>Description</b>                                     | <b>MFN</b> | <b>CEPT</b> |
|--------------------|--------------------------------------------------------|------------|-------------|
| <b>09.01</b>       | <b>Coffee, whether or not roasted or</b>               |            |             |
|                    | <b>decaffeinated coffee husks and skins; coffee</b>    |            |             |
|                    | <b>Substitutes containing coffee in any proportion</b> |            |             |
|                    | - Coffee, not roasted                                  |            |             |
| 0901.11            | -- Not decaffeinated                                   |            |             |
| 0901.11.10         | --- Arabica WIB or Robusta OIB                         |            |             |
|                    | A. In-Quota                                            | 30         | 0           |
|                    | B. Out-of-Quota                                        | 40         | 0           |
| 0901.11.90         | --- Other                                              |            |             |
|                    | A. In-Quota                                            | 30         | 0           |
|                    | B. Out-of-Quota                                        | 40         | 0           |
| 0901.12            | -- Decaffeinated                                       |            |             |
| 0901.12.10         | --- Arabica WIB or Robusta OIB                         |            |             |
|                    | A. In-Quota                                            | 40         | 0           |
|                    | B. Out-of-Quota                                        | 40         | 0           |
| 0901.12.90         | --- Other:                                             |            |             |
|                    | A. In-Quota                                            | 40         | 0           |
|                    | B. Out-of-Quota                                        | 40         | 0           |
|                    | - Coffee, roasted                                      |            |             |
| 0901.21            | -- Not decaffeinated                                   |            |             |
| 0901.21.10         | --- Unground                                           |            |             |
|                    | A. In-Quota                                            | 40         | 0           |
|                    | B. Out-of-Quota                                        | 40         | 0           |
| 0901.21.20         | --- Ground                                             |            |             |
|                    | A. In-Quota                                            | 40         | 0           |
|                    | B. Out-of-Quota                                        | 40         | 0           |
| 0901.22            | -- Decaffeinated                                       |            |             |
| 0901.22.10         | --- Unground                                           |            |             |
|                    | A. In-Quota                                            | 40         | 0           |
|                    | B. Out-of-Quota                                        | 40         | 0           |
| 0901.22.20         | --- Ground                                             |            |             |
|                    | A. In-Quota                                            | 40         | 0           |
|                    | B. Out-of-Quota                                        | 40         | 0           |
| 0901.90.00         | - Other                                                |            |             |
|                    | A. In-Quota                                            | 40         | 0           |
|                    | B. Out-of-Quota                                        | 40         | 0           |

Source: Tariff and Customs Code of the Philippines, 2004 & Executive Order 850

According to press reports, Nestlé Philippines has tied up with the United States Agency for International Development (USAID) for the training of coffee farmers to help raise supply of coffee. At present, the Philippines' largest coffee bean buyer Nestlé has started a coffee specialist training program for local government extension workers all over Mindanao and Visayas. This is under the Philippine Environmental Governance 2 (Ecogov2) project funded by the USAID. Nestlé

has committed to buy all the production of the farmers going through the program for as long as it meets quality standards of the company.

### Marketing:

According to Euromonitor, specialist coffee shops in the Philippines are expected to continue growing in coming years. Specialist coffee shops grew in terms of number of outlets, transactions and value sales. With Starbucks gaining more popularity and other specialty coffee shops following suit, more such outlets are likely to appear. The strong growth is mainly attributed to good consumer demand, as coffee drinking has become a very popular social activity. Increasingly, Filipino consumers are settling for a good coffee instead of alcohol on a night out. Coffee shops have become a status symbol for younger consumers. Working people find these specialty coffee shops to be convenient places for afternoon business meetings. With the growing popularity of coffee drinking in the country, Filipinos have started to be more discriminating in their preferences for coffee, according to Euromonitor.

In the Philippines, multinational chains dominate specialist coffee shops. Led by Starbucks, specialist coffee shops have been enjoying robust growth since appearing in the late 1990s. Other popular foreign franchised specialist coffee shops include Seattle's Best, The Coffee Bean & Tea Leaf and UCC Coffee. Figaro Coffee Company, the most popular local specialist coffee shop in the Philippines, was actually established earlier than Starbucks in the country.

Recognizing the good growth potential for specialist coffee shops, many Filipino companies and even growers of locally produced coffee beans have opened their own businesses. The support of the local government and agriculture sector has also helped to rejuvenate the Philippine coffee industry.

**Euromonitor Outlook:** Coffee shops have experienced slower growth in 2008, in terms of outlet openings, transactions, and value sales compared which can be attributed to the dismal performance. Other cafes/bars in Manila have suffered outlet closures as consumers cut back on visiting them as their income is squeezed by the higher cost of living due the high commodity prices including rice and fuel. As a result the sector experienced slower value growth in 2008, with a 3% growth rate compared to 5% in 2007.

The year 2008 saw cafés/bars expanding their reach through other consumer foodservice channels and various business entities. For instance, Starbucks continues to expand into bookstores through its partnering with bookstores .

### Production, Supply and Demand Data Statistics:

| Coffee,<br>Green<br>Philippines                   | 2008/2009                   |             |             | 2009/2010                   |             |             | 2010/2011                   |             |             |
|---------------------------------------------------|-----------------------------|-------------|-------------|-----------------------------|-------------|-------------|-----------------------------|-------------|-------------|
| (1000 HA)<br>(MILLION TREES)<br>(1000 60 KG BAGS) | Market Year Begin: Jul 2008 |             |             | Market Year Begin: Jul 2009 |             |             | Market Year Begin: Jul 2010 |             |             |
|                                                   | USDA<br>Official            | Old<br>Post | New<br>Post | USDA<br>Official            | Old<br>Post | New<br>Post | USDA<br>Official            | Old<br>Post | New<br>Post |
| Area Planted                                      | 131                         | 131         | 131         | 131                         | 131         | 131         |                             |             | 131         |
| Area Harvested                                    | 114                         | 114         | 114         | 114                         | 114         | 114         |                             |             | 114         |
| Bearing Trees                                     | 89                          | 89          | 89          | 89                          | 89          | 89          |                             |             | 89          |
| Non-Bearing Trees                                 | 15                          | 15          | 15          | 15                          | 15          | 15          |                             |             | 15          |
| Total Tree Population                             | 104                         | 104         | 104         | 104                         | 104         | 104         |                             |             | 104         |
| Beginning Stocks                                  | 140                         | 134         | 140         | 110                         | 135         | 110         |                             |             | 108         |

|                        |       |       |       |       |       |       |  |  |       |
|------------------------|-------|-------|-------|-------|-------|-------|--|--|-------|
| Arabica Production     | 35    | 33    | 35    | 35    | 34    | 35    |  |  | 35    |
| Robusta Production     | 625   | 625   | 625   | 625   | 625   | 615   |  |  | 625   |
| Other Production       | 25    | 23    | 25    | 25    | 23    | 25    |  |  | 25    |
| Total Production       | 685   | 681   | 685   | 685   | 682   | 675   |  |  | 685   |
| Bean Imports           | 390   | 270   | 390   | 300   | 380   | 450   |  |  | 450   |
| Roast & Ground Imports | 3     | 3     | 3     | 3     | 3     | 3     |  |  | 3     |
| Soluble Imports        | 130   | 130   | 130   | 75    | 75    | 150   |  |  | 150   |
| Total Imports          | 523   | 403   | 523   | 378   | 458   | 603   |  |  | 603   |
| Total Supply           | 1,348 | 1,218 | 1,348 | 1,173 | 1,275 | 1,388 |  |  | 1,396 |
| Bean Exports           | 2     | 2     | 2     | 2     | 2     | 2     |  |  | 2     |
| Rst-Grnd Exp.          | 0     | 0     | 0     | 0     | 0     | 0     |  |  | 0     |
| Soluble Exports        | 16    | 16    | 16    | 62    | 62    | 28    |  |  | 32    |
| Total Exports          | 18    | 18    | 18    | 64    | 64    | 30    |  |  | 34    |
| Rst,Ground Dom. Consum | 120   | 120   | 120   | 125   | 125   | 125   |  |  | 125   |
| Soluble Dom. Cons.     | 1,100 | 945   | 1,100 | 950   | 950   | 1,125 |  |  | 1,125 |
| Domestic Use           | 1,220 | 1,065 | 1,220 | 1,075 | 1,075 | 1,250 |  |  | 1,250 |
| Ending Stocks          | 110   | 135   | 110   | 34    | 136   | 108   |  |  | 112   |
| Total Distribution     | 1,348 | 1,218 | 1,348 | 1,173 | 1,275 | 1,388 |  |  | 1,396 |
| Exportable Production  | 0     | 0     | 0     | 0     | 0     | 0     |  |  | 0     |
| TS=TD                  |       |       | 0     |       |       | 0     |  |  | 0     |